

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: U S WEST COMMUNICATIONS, INC. AND CITIZENS TELECOMMUNICATIONS COMPANY OF IOWA	DOCKET NO. SPU-99-31
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ORDER REQUIRING RESPONSES TO QUESTIONS

(Issued February 4, 2000)

On November 9, 1999, U S WEST Communications, Inc. (U S West), and Citizens Telecommunications Company of Iowa (Citizens) (collectively, the Applicants) filed a joint application with the Utilities Board (Board) for approval of reorganization, discontinuance of service, and transfer of certificates, pursuant to Iowa Code §§ 476.77, 476.20, and 476.29 (1999). The Board will docket the joint application as Docket No. SPU-99-31.

After completing its initial review of the Joint Application, the Board finds it has a number of questions concerning the proposed transaction. It is possible that some of these questions could wait until the hearing in this docket, but some of them require relatively detailed responses that are likely to take some time to assemble. The result would be that many of these questions would have to be answered after the hearing, potentially extending the time required for the Board to complete its review of the proposed reorganization. The ability of the Board to complete that review in a timely manner will be improved by receiving answers to all of these

questions in advance of the hearing. Accordingly, the Board will direct Applicants to answer all of the questions on the attached document, identified as Attachment A and incorporated herein by this reference, within ten days of the date of this order. If the Applicants are unable to respond to some of the questions in that time frame, they should file a detailed request for extension of time, applying only to those questions that cannot be answered within ten days, and explaining why that is so.

IT IS THEREFORE ORDERED:

Applicants are directed to answer the questions set forth in the attached document, identified as Attachment A, within ten days of the date of this order. Answers should be submitted in the form of sworn testimony and exhibits.

UTILITIES BOARD

/s/ Allan T. Thoms

/s/ Susan J. Frye

ATTEST:

/s/ Raymond K. Vawter, Jr.
Executive Secretary

/s/ Diane Munns

Dated at Des Moines, Iowa, this 4th day of February, 2000.

**ATTACHMENT A
TO
"ORDER REQUIRING ADDITIONAL INFORMATION"**

DOCKET NO. SPU-99-31

The following questions are to be answered by the Applicants. They are organized by reference to Board rules, statutory requirements, and the Joint Application for ease of use. Omission of any particular rule or statutory requirement should not be interpreted as any indication that the Joint Application is sufficient or deficient with respect to that particular requirement.

FILING REQUIREMENTS FROM BOARD RULES

32.4(1) General information.

a. A statement of the purposes of the reorganization and description of the events which led to the reorganization.

Questions:

- 1) U S West witness Phillips states digital technology provides an excellent foundation for the purchases to enhance service to customers in those exchanges in the future. If U S West is selling this excellent foundation, how does the sale of the digital exchanges make U S West better off in terms of quality of service issues for its remaining customers? Explain exactly how the remaining exchanges are likely to see an improvement in the service provided as a result of the sale.
- 2) Please explain how and why the 33 exchanges were selected to be sold.

b. An analysis of the alternatives to the proposed reorganization which were considered and their impact on rates and services, if any.

Question:

- 1) 199 IAC 32.4(1) requires an analysis of the alternatives to the proposed reorganization, which were considered by U S West. Please explain the other alternatives considered by U S West.

32.4(2) Reorganization details.

b. Staffing changes due to the proposed reorganization.

Question:

- 1) Taking into account the results of the J.D. Powers survey, is Citizens considering hiring additional staff to address quality of service issues in Iowa?

e. The proposed method for:

(1) Accounting for and allocating officer's time between the public utility and any affiliates.

Question:

- 1) Please indicate where in the Joint Application Citizens addresses the filing requirement of 199 IAC 32.4(2)"e." If it is not addressed in the Application, please file supplemental information fulfilling the filing requirement.

f. Copies of all contracts which directly relate to the reorganization. If there are any unwritten contracts or arrangements, a summary of the unwritten contracts or arrangements verified by an officer of the operating company shall be provided.

Question:

- 1) Is the Agreement, provided as Exhibit 6 to the Joint Application, the only contract or arrangement, written or unwritten, that directly relates to the reorganization? If not, provide copies of any written agreements and summaries of any unwritten agreements or arrangements, in compliance with 199 IAC 32.4(2)"f."

h. A statement of any proposed physical removal of assets from the board's jurisdiction to another jurisdiction or removal or transfer of assets from a regulated to a nonregulated environment.

Question:

- 1) Please indicate where in the Joint Application the Applicants address the filing requirement of 199 IAC 32.4(2)"h." If it is not addressed in the Application, please file supplemental information fulfilling the filing requirement.

32.4(3) Financial details.

a. An analysis of whether the affected public utility's ability to attract capital on reasonable terms, including the maintenance of a reasonable capital structure and corporate financial integrity, is impaired.

Question:

- 1) You provided analysis on Citizens' ability to attract capital. However, you did not provide any analysis on Citizens-Iowa's ability to attract capital after the completion of the acquisition. Please provide this analysis to the Board.

b. A description of the financing components of the proposed reorganization.

Question:

- 1) Please provide documentation supporting the figure \$460 million (the total of Citizens' investment portfolio and cash) found in Mr. Lafferty's direct testimony, page 9.

c. Information concerning the funding provided to any new entity created by the proposed reorganization.

Question:

- 1) If Citizens-Iowa issues debt sometime in the future, explain if there will be a limitation placed on the total amount of debt allowed to be acquired to protect the utility and its customers from too much financial risk.

d. Current and proposed reorganization balance sheets and capital structures.

Questions:

- 1) Please provide more detail for U S West's balance sheet and capital structure, in Exhibits PAT-1 and PAT-2. For example, does the "debt" in the capital structure include only long-term debt or both short-term debt and long-term debt?
- 2) Please provide a pro forma balance sheet for U S West reflecting the proposed sales of exchanges in addition to the one in Iowa. Also show the impact these sales would have on U S West's capital structure.
- 3) Please provide Citizens' proposed balance sheet for as many years that are available showing the impact of the proposed GTE and U S West acquisitions.

32.4(4) Impact of reorganization.

a. A cost-benefit analysis which describes the projected benefits and costs of reorganizing. The benefits and costs should be quantified in terms of present value. The sources of such benefits and costs shall be identified.

Questions:

- 1) Please provide the assumptions used in the derivation of your cost/benefit study of reorganizing and shown on U S West witness Taylor's Exhibit___PAT-3.

- 2) Please indicate where in the Joint Application Citizens addresses the filing requirement of 199 IAC 32.4(4)"a." If it is not addressed in the Application, please file supplemental information fulfilling the filing requirement.
- b. An analysis of the projected financial impact of the proposed reorganization on the ratepayers of the affected public utilities for the first five years after reorganization.**

Question:

- 1) U S West's witness Phillips states that its price plan remains in effect through November 2001. Does Citizens currently plan on renewing the Price Plan for an additional term of up to 3 years or go under general rate regulation? What options do you foresee you will have at the time the current price plan expires? What circumstances would lead to a decision for Citizens to forego price regulation?

STATUTORY FACTORS

2. (476.77(3)"b") WHETHER THE PUBLIC UTILITY'S ABILITY TO ATTRACT CAPITAL ON REASONABLE TERMS, INCLUDING THE MAINTENANCE OF A REASONABLE CAPITAL STRUCTURE, IS IMPAIRED.

Questions:

- 1) Ms. Taylor, please explain why the estimated adjustment to "Total Liabilities and Shareholders' Equity," on the balance sheet located in Exhibit PAT-1 does not match the estimated change in common equity in Exhibit PAT-2.
- 2) In U S West Communications' balance sheet, in Exhibit PAT-1, there is a column labeled "Estimated Iowa Exchange Sale." Within that column, an adjustment of \$78 million is made to U S West Communications' other assets category. Please explain what that adjustment is.
- 3) U.S. West Communication is estimated to receive a gain from the sale of the 33 exchanges to Citizens. According to Ms. Taylor's direct testimony, page 6, this gain will be recorded below the line. Please explain, if possible, the use of the gain after the sale. Will it be used to buy down debt to improve the financial stability of the parent, for example?
- 4) If the cash and investment portfolio, along with the proceeds from the sale of the Public Services business, are inadequate to cover the costs of the acquisitions made by Citizens, what source of capital would be used? What is the probability of this happening?

- 5) How long do you expect it will take to sell the Public Services section of Citizens? What are the estimated proceeds Citizens is hoping to gain from this sale?
- 6) Is it true that Citizens' bond ratings were downgraded a few months ago? If yes, explain why this happened and what the implications are for Citizens' financial future.
- 7) In Confidential Exhibit FWL-4, there is a line item entitled, "Debit Telecommunications Plant Adjustment (Account 2005)." Does that balance represent the amount Citizens paid above book for U S West Communications' exchanges in Iowa? If no, what is the amount of the acquisition premium (goodwill) paid?
 - a) Will this amount be booked to Citizens Telecommunications Company of Iowa?
 - b) Will any of the amortization of this expense be allocated to the rates of customers after the price-cap plan expires?
- 6) Please provide, for each of the last three years, the capital structure for the consolidated U S West, Inc. calculated utilizing a 13-month average of month-ending balances ending on December 31st of each year. Provide the same type of information for Citizens Utilities and U S West Communications.

3. (476.77(3)"c") *WHETHER THE ABILITY OF THE PUBLIC UTILITY TO PROVIDE SAFE, REASONABLE, AND ADEQUATE SERVICE IS IMPAIRED.*

Questions:

- 1) The 1999 J.D. Power and Associates Residential Local Telephone Service Satisfaction Study shows U S West has an "Overall Customer Satisfaction Index Score" of 94 in comparison to the industry average of 100. Why is it that U S West's score is below the industry average? In 1998 U S West's overall Customer Satisfaction Index Score was 92. What attributed to the increase in overall satisfaction from 1998 to 1999?
- 2) The Board's internal reports reflect an upward trend in complaints from 1997 through September of 1999 for U S West. Aside from the billing issues of slamming, cramming, and jamming, what factors do you attribute to the increasing trend in written and verbal complaints with customer service?
- 3) Provide a service measurement based upon the criteria set forth in the Board's standards of quality of service (199 IAC 22.6) for the time period of March 1998 through the most current month for the exchanges being purchased.

- 4) U S West witness Phillips stated in his direct testimony, on page 13, that the quality of service to customers in the sold exchanges is likely to improve. Please explain how quality of service in the sold exchange will improve.
- 5) Has U S West developed a program or mechanism to determine what plant facilities/features in specific areas or locations appear to be causing customer service problems (in the 33 exchanges being sold)? If a process or program exists, please provide a summary copy of the results or output. Also, if corrective action for specific problems areas has been determined, please provide the intended action plan for each identified issue or problem area.
- 6) Provide a status report on all activities associated with the infrastructure modernization plan included within the current price cap plan. In addition, what effect will the sale have on this plan?
- 7) What are the favorable effects of the sale of the 33 exchanges for the remaining U S West local service customers in Iowa?
- 8) Please explain the steps U S West has developed to reduce or eliminate held orders for primary service in the 33 exchanges.
- 9) Specifically, what are the service problems in the 33 exchanges for sale? Are the problems facilities based, limited staff, etc.?
- 10) If the Board determines that additional capital expenditures in excess of normal budgeted amounts are required to improve customer service, how will U S West/Citizens fund these projects?
- 11) Assuming the other eight states (nine including Iowa) require additional capital expenditures to improve customer service, how will U S West/Citizens ensure that each state receives its appropriate share?
- 12) What steps should the Board take to monitor service quality if the proposed reorganization is not disapproved?
- 13) What plans or action steps has U S West/Citizens made or taken to enhance plant facilities to accommodate the provisioning of advanced services to all customers? How will these plans be affected by the proposed sale?
- 14) Have you made a request to J.D. Power and Associates for additional information regarding the survey? Please submit the additional information pertaining to the survey and address how service in Iowa is rated.
- 15) On November 4, 1999, Citizens filed a letter addressed to the Chairman discussing the J.D. Powers survey results. In this letter, there is a discussion about a general plan to

manage existing customer service issues as revealed in the study. Has Citizens developed a program or mechanism to determine the specific area or areas in Iowa which appear to be causing customer service problems with U S West? If a process or program exists, please submit any plans for corrective action for specific problem areas that have been determined in Iowa.

- 16) In this same letter, it states, "Even though our company was the only totally rural local telephone company covered in the results, we believe that our customers should receive a level of service comparable with customers in larger metropolitan areas." Please explain how you think being a rural company impacts the survey results?
- 17) Please provide a listing of the identified projects with the estimated cost of each project and the estimated costs for each year.
- 18) What plans, if any, does U S West/Citizens have for providing advanced or enhanced services in the rural markets of Iowa?
- 19) What plans or action steps will U S West/Citizens take to enhance plant facilities to accommodate the provisioning of advanced services to all customers?
- 20) What steps will be taken to enhance the quality of service for carrier-to-carrier and wholesale customers of Citizens?
- 21) What steps will Citizens take to promote competition in its serving areas?
- 22) Does Citizens intend to compete with other service providers in locations outside of their serving areas? If so, what are these plans and scheduled deployments?
- 23) As Citizens begins its own Operations Support Systems (OSS), will the system(s) be designed to allow for CLEC access in a competitive environment?
- 24) If the Operational Support Systems (OSS) are not initially designed for CLEC access in a competitive environment, what steps will Citizens take to ensure there will be no unnecessary delays in a competitor's market entry?
- 25) Does Citizens have plans to modify toll routes or points of interconnection with IXC's that are currently involved with the provision of toll? Will there be changes in rate centers?
- 26) On page 13 of Lafferty's direct testimony, it states, "Citizens-Iowa also intends to negotiate interconnection agreements with all telecommunication service providers that currently have interconnection agreements with U S West. Citizens-Iowa expects to reach agreement with all such providers before closing." What steps, if any, will

Citizens take to incorporate Citizens costs/prices into the existing agreements? Please submit the action plan, the results to date, and the probable status at the time of closing.

- 27) In the Application there is a request for waiver of Iowa Administrative Code 22.23 which covers Unauthorized Changes in Telecommunications Services. Citizens states U S West customers will be given advanced notice of the proposed transfer. Please submit a copy of this notice and the tentative date of when the customers will be notified.
- 28) Citizens states it plans to educate the public and obtain public input about the transaction. Please submit an action plan to educate the public of the transfer. Please include the time of day of the transfer of the center and how the transition will appear seamless to the consumer.
- 29) Citizens states its operations offices will be located to manage the installation, repair, and routine construction activities for Citizens-Iowa customers and employees will be located in local area to meet daily requirements. Also, facilities in New York will be expanded to ensure efficiency and quality service. Please discuss the plan for the Iowa locations and how customers can call in to report service issues.

4. (476.77(3)"d") *WHETHER RATEPAYERS ARE DETRIMENTALLY AFFECTED.*

Questions:

- 1) Is Citizens adopting U S West's schedule of depreciation lives? If the method or life is different, please provide a schedule of depreciation lives with explanations of the methods and lives proposed for each class of plant that you will be purchasing from U S West.
- 2) Should Citizens propose to change any of the plant depreciation lives or methods, when will Citizens file a depreciation proceeding with the Board?
- 2) Does Citizens plan to pursue the introduction of state legislation to increase the access line criteria for the determination of rate/non-rate regulation?
- 3) U S West, are there any current or pending tax audits that would impact the amount of Accumulated Deferred Income Taxes and Accumulated Reserve Deficiencies related to the Iowa exchanges proposed to be sold?
- 4) Please provide a schedule of depreciation, including explanations of the methods and lives used for each class of plant.